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## China - Peoples Republic of

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### Update on China's 2016 State Cotton Reserve Sale

**Report Categories:**

Cotton and Products

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**Report Highlights:**

As scheduled, the Chinese government's auction of state cotton reserves began on May 3, 2016. The auction results during its first week showed a high purchase rate of 99.9 percent with 120,350 metric tons (MT) sold. Imported cotton was fully sold and accounted for 77 percent of the total volume auctioned. This indicates a serious shortage of high-grade cotton for China's textile sector. By comparison, with 120,350 MT already sold during the first week of the 2016 auction, the Chinese government has almost doubled the total volume sold during all of 2015. This year's high purchase rate, compared to the low 3.4 percent purchase rate in 2015, is expected to further temper demand for cotton imports. The government's control on the issuance of additional import quotas for cotton is already expected to reduce MY15/16 China's cotton imports to 1.1 million MT (MMT), the lowest level in 13 years.

## Executive Summary

As scheduled, the Chinese government's auction of state cotton reserves began on May 3, 2016. The auction results during its first week showed a high purchase rate of 99.9 percent with 120,350 metric tons (MT) sold. Imported cotton was fully sold and accounted for 77 percent of the total volume auctioned. This indicates a serious shortage of high-grade cotton for China's textile sector. This high purchase rate, compared to the low 3.4 percent purchase rate for all of 2015, is expected to further temper demand for cotton imports. The government's control on the issuance of additional import quotas for cotton is already expected to reduce MY15/16 China's cotton imports to 1.1 million MT(MMT), the lowest level in 13 years.

According to the Chinese government's schedule, the auction of state cotton reserves began on May 3, 2016. The auction results in first week showed a very active participation of spinners with a purchase rate of 99.9 percent.

This purchase rate is much higher than the low 3.4 percent purchase rate for all of 2015. Out of the 121,165 MT offered, 120,350 MT were purchased by spinners. Of the total volume purchased, 27,671 MT were domestic cotton and 92,679 MT were imported cotton. The imported cotton offered in the auctions was fully purchased while the domestic crop was 97.2 percent purchased. Industry sources reported that imported U.S. and Australian cotton were the most popular during the auctions and were also purchased at a higher price.

In general, the high purchase rate indicates a shortage of cotton, specifically high-grade imported cotton, in the Chinese market. Additionally, all cotton is subjected to re-classification and re-weighing which assures the buyers of the quality and weight of what purchased. Moreover, there are generally no restrictions for participating in these auctions encouraging more buyers to participate. It also shows that the auction floor price offered this year appears to be "acceptable" to buyers compared to last year.

It is widely believed that the high rate of purchase is likely to continue at least during the first weeks as Chinese mills are short of cotton. Spinning mills are the main buyers. However, some traders were also involved in auctions mainly to source imported cotton as some of them see a recovery in global cotton prices. Currently, it appears the cotton purchased will be fully used by domestic mills. This high purchase rate is expected to further temper demand for cotton imports. The government's control on the issuance of additional import quotas for cotton is already expected to reduce MY15/16 China's cotton imports to 1.1 MMT, the lowest level in 13 years.

This year's high purchase rate is in great contrast to the 3.4 percent purchase rate during previous auctions held during 2015 (which ended in late Aug 2015). As previously reported, out of the total 1.85 MMT cotton reserves offered in the 2015 open auctions, the purchased quantity remained low at only 63,413 MT. The high 2015 auction price was reportedly the main reason for the low purchase rate. In comparison, with 120,350 MT already sold during the first week of the 2016 open auction, the Chinese government has almost doubled the total volume sold during 2015.

Based on the government's plan, the daily offered volume will be about 30,000 MT. If the purchase rate remains above 70 percent for 3 consecutive days, then this daily volume can be raised accordingly. Hence, it is likely that the daily volume will be raised in next auctions. The auction is scheduled to continue until the end of August 2016. As previously reported, the Chinese government plans to reduce the government cotton reserves (estimated at 11-11.2 MMT at the end of March 2016) to a "reasonable level" in five years.

### Summary of the First Week of the 2016 State Cotton Reserves Auctions

	Volume	Volume	Purchase	Price (RMB/metric ton) Lowest to
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	offered (metric tons)	Purchased (metric tons)	rate%	Highest
<b>May 3</b>	30,379	30,137	99.3	9,730 – 13,820
--Domestic	8,266	8,060		
--Imported	22,113	22,076		
<b>May 4</b>	30,136		99.6	10,410 -- 13,230
--Domestic	5,000	4,900	97.5	
--Imported	25,400	25,400	100	
<b>May 5</b>	30,054	29,924	99.6	10,770 -- 14,350
--Domestic	5,109	4,979		
--Imported	24,945	24,945		
<b>May 6</b>	30,369	30,023	99	10,890 – 12,920
--Domestic				
--Imported				
<b>Total</b>	121,165	120,350	<b>99.9</b>	
<b>--Domestic</b>	28,468	27,671	<b>97.2</b>	
<b>--Imported</b>	92,697	92,679	<b>100</b>	

Exchange rate: \$1=RMB6.5; “Domestic” refers to domestic cotton in state reserve, and “Imported” refers to imported cotton in state reserve